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## Canada

### Agricultural Situation

### This Week in Canadian Agriculture, Issue 2 2005

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**Report Highlights:**

\* Canada Announces Another BSE Case \* Feed Ban Did Not Include Disposal of Stored Feed  
\* Industry Mulls Mass Cattle Cull \* U.S. Groups Oppose and Re-Evaluate the Reopening  
Border to Live Canadian Cattle \* PEI Potato Board Promoting Spud Diversion to Raise Prices  
\* Growers Hopeful Prince Edward Island Potato Processor Will Expand \* Ontario to Review  
the Distribution and Retailing of Liquor, Beer and Wine \* Hearings to be Held Regarding WTO  
Wheat Panel Ruling \* Canada Hits Back in Softwood Lumber Dispute \* Canada's Trade  
Surplus Soars

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Ottawa [CA1]  
[CA]

This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives.

*Disclaimer:* Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

**CANADA ANNOUNCES ANOTHER BSE CASE:** On January 11, 2005, nine days after its second case of bovine spongiform encephalopathy (BSE), the Canadian Food Inspection Agency (CFIA) confirmed another case in an Alberta cow (all three cases since May 2003 have occurred in Alberta and the Washington State of December 2003 case was traced to an animal from Alberta). The CFIA reports that traceouts have confirmed that three birth cohort animals from the most recent case were exported to the United States. So far, no birth cohort of the animal has tested positive in Canada. The most recent positive-test animal was born in March 1998, after the introduction of the 1997 feed ban in Canada (i.e., the banning of rendered protein products derived from most mammals for use in ruminant feed). USDA is sending a technical team to Canada to evaluate the circumstances surrounding these recent finds. The Canadian government has launched an extensive international outreach campaign to reinforce awareness and understanding of the science-based measures Canada has in place to protect human and animal health from BSE. Canadian officials have been dispatched to China and will be traveling to Hong Kong, Japan and Taiwan over the coming week. Canada's Chief Veterinary Officer is currently in Washington for technical discussions with USDA and FDA officials. Ag Minister Mitchell will travel to Mexico next week and the United States soon after to meet with his counterparts.

**FEED BAN DID NOT INCLUDE DISPOSAL OF STORED FEED:** Anecdotal information from Canadian cattle ranchers suggests that because Canada's feed ban did not require the disposal of previously manufactured feeds, potentially BSE contaminated feed may have remained in storage on farms. As a result, there remained the potential for farmers to feed prohibited proteins in cattle feed for an extended period of time following the actual ban. Indeed, prior to the May 2003 BSE incident, it was thought that Canada's only possible source of BSE infective agent was the importation of live UK cattle in the 1980s. Canada has not imported cattle from the UK since 1990. Following the detection of BSE in one of the imported UK animals in 1993, all others (remaining alive) were slaughtered and incinerated (about 363 animals). From 1994 an import ban was imposed on all countries where BSE had been detected in native cattle. From 1996, live cattle could only be imported from countries that Canada designated as free from BSE following a comprehensive risk assessment. According to a CFIA factsheet, Canada has not imported ruminant-derived meat and bone meal for the purpose of livestock feeding from Europe for more than a decade. In December 2000, the CFIA suspended the importation of rendered animal material of any species from any country that Canada did not recognize as free of BSE.

**INDUSTRY MULLS MASS CATTLE CULL:** There is renewed interest in the Canadian cattle industry for a mass cattle cull following the discovery of another confirmed case of BSE in an animal born after Canada's 1997 feed ban (a ban to prohibit rendered protein products derived from cattle and most other mammals in ruminant feed). Alberta Premier Ralph Klein suggested this week that a cull of about 1.8 million older animals should effectively remove the higher risk animals from the industry in an expedient fashion. A spokesperson for the Canadian Cattlemen's Association admitted that a cull is being discussed within the industry and will likely be discussed with government officials. Canada's cattle industry has been generally cautious about a grand scale cattle cull in order to spare consumers scenes or thoughts of mass graves and piles of incinerating bovine carcasses. In fact, beef consumption in Canada has remained strong since the first incident of BSE in Alberta in May 2003.

**U.S. GROUPS OPPOSE AND RE-EVALUATE THE REOPENING BORDER TO LIVE CANADIAN CATTLE:** While the U.S. administration continues to support the opening of the border to live cattle imports from Canada, USDA is sending a technical team to Canada to evaluate the circumstances surrounding these recent finds of BSE in Alberta. A number of U.S. politicians are against the reopening of the border to Canadian cattle. Media reports say that North Dakota's Gov. John Hoeven, U.S. senators Byron Dorgan and Kent Conrad, and California Congressman Henry Waxman, all believe that the U.S. should re-evaluate the border opening. Earlier in the week, R-CALF USA launched a

lawsuit against USDA demanding that the Canadian border remain closed. The 36-page document, filed in the U.S. District Court for Montana, asks the court to overturn USDA's final rule. The National Cattlemen's Beef Association (NCBA), the largest organization representing America's cattle industry, intends to send its own technical team to Canada and issued the following statement. "In light of the recent findings of BSE in Canadian cattle, and the fact that this last animal was born after Canada's feed ban, we demand that USDA and the Food and Drug Administration (FDA) investigate Canada's feed ban compliance. Based on this information, USDA and the FDA should determine how to proceed with regard to implementation of the Canadian rule. Members of the NCBA are committed to normalizing global trade based on science that protects the health of our industry. Science shows the feed ban breaks the cycle of this disease, and U.S. cattlemen must be confident of Canada's full compliance with its feed ban. Once the questions concerning Canada's compliance with its BSE firewalls have been adequately answered, NCBA members will consider their position on the Canadian rule and efforts to reopen the border.

**PEI POTATO BOARD PROMOTING SPUD DIVERSION TO RAISE PRICES:** The PEI Potato Board is encouraging growers to dump over one million pounds of potatoes to help drive up the North American price. Prince Edward Island is Canada's No. 1 potato producing province. One PEI board member told local media that while the 2004 growing season proved to be a good harvest, finding enough customers has been difficult. Many open market potatoes (i.e., non-contracted) are reportedly still in warehouses awaiting a buyer. Details of the Island's voluntary diversion program were unveiled to growers, dealers, exporters, processors and other industry people this week at the meeting of the Potato Marketing Association of North America. Under the voluntary plan, potatoes would be removed from normal marketing channels via spreading on fields, food banks and livestock feed. PEI Potato Board manager Ivan Noonan said that the board has spoken with other potato organizations in Canada and challenged them to support strengthened returns for all growers by looking at similar programs. He added that a similar program is underway in Idaho where a new grower co-operative representing over 90 per cent of the fresh potato acreage in that state has set a goal of diverting 4 million hundredweight of potatoes.

**GROWERS HOPEFUL PRINCE EDWARD ISLAND POTATO PROCESSOR WILL EXPAND:** Local press reports indicate that Cavendish Farms, one of two major processors of frozen french fries in Prince Edward Island (the other is McCain), is looking to expand production capacity. Cavendish currently operates two processing plants in the province. These are reportedly running at full capacity. The company, said to be in discussions with provincial agriculture and environmental officials, has made no public announcement concerning expansion. Canada is a major exporter of frozen potato products with worldwide sales estimated at \$700 million during 2004, of which about \$550 million was exported to the United States. In fact, value-wise, frozen french fries is the third most important Canadian agricultural export to the U.S. after beef and pork.

**ONTARIO TO REVIEW THE DISTRIBUTION AND RETAILING OF LIQUOR, BEER AND WINE:**

The Ontario government has announced that an independent review panel will examine the roles of all the participants in Ontario's beverage alcohol distribution and retail system, including the government-owned Liquor Control Board of Ontario (LCBO), the privately owned Brewers Retail Inc., and the retail stores owned by Ontario wineries. The panel will receive input from the public and stakeholders and make recommendations in spring 2005. Industry observers say that the province is interested in extending certain wine and beer sales into privately owned grocery and convenience stores, a practice not currently permitted in the province, in order to boost realized revenues for Ontario. Alongside its retail operations, the LCBO is also first receiver of all liquor commercially imported into Ontario and enforces minimum prices. In 2003/04, the LCBO's net sales (excluding retail taxes) were C\$3.3 billion, generating a dividend to the provincial government of C\$1.04 billion.

**HEARINGS TO BE HELD REGARDING WTO WHEAT PANEL RULING:** Mr. Wayne Easter, Parliamentary Secretary to the Minister of Agriculture and Agri-Food, will be holding hearings next week in Western Canada on the implications of the implementation of the World Trade Organization's (WTO) ruling on the Canadian Wheat Board (CWB). In 2004, a WTO Panel released its final ruling against Canada on the rail revenue cap (which limits what railways can charge for moving western Canadian grain), the Canadian Grain Commissions authorization requirements for U.S. grain moving into Canada, and prohibitions against mixing of Canadian and U.S. grain by Canadian elevators. The U.S. and Canada later agreed on a time frame in which the Canadian government has to implement

the changes as required by the WTO ruling. Mr. Easter is seeking the input of producers from across the Prairies on how the Canadian government should go about implementing the changes and the possible impact the changes may have. The hearings are scheduled for January 17th in Abbotsford, B.C., January 19th in Calgary, AB, January 20th in Saskatoon, SK and January 21st in Brandon, MB.

**CANADA HITS BACK IN SOFTWOOD LUMBER DISPUTE:** In the ongoing saga of the softwood lumber dispute between Canada and the U.S., the Canadian government has launched another trade challenge against the United States. This most recent trade challenge comes in response to a U.S. countervailing duty administrative review, which was issued on December 14, 2004. In the review, the U.S. Department of Commerce determined a new duty rate of 17.18 percent, only a small fraction lower than the original duty rate of 18.79 percent. Canada and the Canadian lumber industry had been expecting a substantial reduction and were shocked by the lack of significant reduction in the duty. This latest challenge follows closely behind other actions recently taken by Canada in regards to the dispute. The most recent actions taken by the Canadian government are:

- The Canadian government has filed a notice of intent to appeal the U.S. International Trade Commission (ITC) threat of injury determination, issued November 24, 2004, before the U.S. court of International Trade.
- A notice of intent has been filed to challenge the countervailing and anti-dumping duty orders that were amended to reflect the new ITC determination.
- Canada has also challenged the measure taken by the U.S. to comply with a World Trade Organization (WTO) ruling in the subsidy case.
- Canada sought authority to retaliate on a maximum of C\$200 million of American imports.

**CANADA'S TRADE SURPLUS SOARS:** According to Statistics Canada, Canada's trade surplus soared to near-record levels in November, reaching C\$7.3 billion, the third-highest level since 1997. One of the main contributors to the large increase was the fact that the high Canadian dollar held down the cost of imports. Both imports and exports were down for the month of November, with Canadian companies only importing C\$27.4 billion worth of merchandise and Canadian companies exporting C\$34.7 billion worth of merchandise. Both energy and auto exports were down for the month of November. Economists did not greet the increase in the trade surplus with enthusiasm, as the surplus was a result of a drop in imports, not a boom in exports. Export Development Canada's latest semi-annual report indicated that Canadian exporters are more pessimistic about trade opportunities abroad because of the higher value of the Canadian dollar, slower global economic growth and geopolitical uncertainty.

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